



**PROMOTING INDUSTRIAL ZONES AND INVESTMENT MOBILIZATION**  
**USAID WB/G SO1: EXPANDING ECONOMIC OPPORTUNITIES**  
**CONTRACT No. 294-C-00-00-00071-00**

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<p><b>PIPA Ireland Off-Site Study Tour</b> <b>Trip Report</b></p>
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SUBMITTED ON

**JANUARY 10, 2001**

TO THE

**USAID MISSION TO THE WEST BANK AND GAZA**  
MARGOT ELLIS, CTO

BY

**THE SERVICES GROUP (TSG)**  
BETH WALSH, SENIOR PROJECT ADMINISTRATOR

2300 CLARENDON BOULEVARD 1110  
ARLINGTON, VIRGINIA 22201  
USA  
[WWW.TSGINC.COM](http://WWW.TSGINC.COM)

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## Introduction

The objective of this study tour was to introduce members of PIPA's staff not only to Ireland's Shannon Free Zone experience, the Industrial Development Agency (IDA), and FORFAS, but to expose them to the Ireland development experience as a whole. Some basic parallels between Ireland's experience and that of the Palestinians can be drawn for example, in terms of size, population, youth of population and strife which allowed the participants to examine a successful case study of a country which overcame difficult obstacles and is now flourishing.

### The Study Tour Participants:

#### PIPA personnel:

- |    |                    |  |
|----|--------------------|--|
| 1. | Naim Harb:         | Administrative and Financial Department Head |
| 2. | Namir Khayat:      | Investors Support Unit                       |
| 3. | Muna Al Alsinwar:  | Incentives Department                        |
| 4. | Hani Shubib:       | Ministry of Finance                          |
| 5. | Marouane Aboudraz: | Incentives Department                        |
| 6. | Riham Tarazi:      | Public Relations – TSG PRIZIM Local Staff    |

#### PRIZIM-TSG Team Leader:

Sam Morris

#### PRIZIM-TSG Facilitator:

Beth Walsh

### Study Tour Meetings:

#### **Tom O'Dwyer – Manager- Forfas (National Planning Agency) - Press/communication.**

Date: 10/22/01

Room 280 – Forfa's, Dublin

IDA was established in 1969 to promote foreign direct investment and assist indigenous industry development. IDA is in effect a one stop-shop shop - autonomous with little government involvement.

In the 1970s, growth of the electronics and pharmaceuticals industries in the U.S. created a target for investment in Ireland. This allowed for a growth of U.S. investment in Ireland in the 1970s which continued into the 1980s. The relatively high education level in Ireland was a key selling point in attracting this overseas investment.

In the early 1970s, IDA focused on its promotion strategy to overseas markets.

#### Strategy:

- 1- Ireland needed a presence in the market
- 2- IDA made a commitment to having offices overseas, N.Y., Chicago, Europe, etc.

- 3- Competition was fierce so IDA had to sell Ireland as a place to invest through the people in the overseas offices. Much time was spent selecting the best representatives for the overseas offices because their role was crucial.
- 4- Promotional materials for presentations must be very professional and targeted because the window of opportunity for face to face time with potential investors is very narrow.

Sam Morris presented some of PIPAS new promotional materials which were developed with assistance from Al-Nasher Advertising. In a discussion that followed, Mr. Sam Morris mentioned the “brain drain” phenomena where many educated and talented Palestinians are emigrating to the Gulf States, US etc. During the previous PIPA study tour to the Dominican Republic and Puerto Rico, PIPA staff encountered many high level Palestinians in positions of authority.

Mr. O’Dwyer asked the PIPA representatives whether their 1st international target market has been identified. Mr. Morris responded that the first target is only wealthy international Palestinians and that at this time, there is no other narrow focus.

Mr. O’Dwyer then asked what the investment promotion campaign will be. Mr. Morris responded that the focus will be on whatever sectors investors are interested, and the campaign will include websites, personal visits, letters, e-mail campaign, etc.

Mr. O’Dwyer explained that it is a natural route to focus on nationals abroad. IDA did this as well, using contacts to work with successful officers and their goodwill toward Ireland to gain entry into other firms and their executives. Many were found with strong ancestral bonds to Ireland who were very interested in supporting the homeland. Support from these successful American executives created enormous credibility similar to getting a letter of recommendation from a successful businessperson that opens doors.

Once you persuade potent investors to visit your country, the next goal is to introduce them to already established investors. These people can sell the country best to a fellow inventory especially if they are fellow countrymen.

Namir Khayat of PIPA asked what types of materials IDA uses most (CD-Rom, etc). Mr. O’Dwyer responds that for presentations video is used most, but printed materials and CD-Rom are also used.

If a foreign investor is interested in investing long-term, for several yrs the investor will want to send its own people to manage and grow the investment before handing over to Palestinians. Therefore, another part of the job of attracting investor is selling their employees on moving their lives to Palestine. It is very important to sell these people on Palestine as a nice place to live where children can be educated, housing is good. etc. One must overcome the images of your country that many potential investors may have of it.

For this reason, it is also important to consider your country’s image in the media within the country you are attempting to gain as an investor. IDA worked hard to build up contacts with the business media. IDA built relationships with foreign journalists who have credibility in the

investing country. e.g. Fortune Magazine. The media can help to change the misconceptions about your country.

It is also important to remember, since PIPA is a governmental body, that you have a home audience as well. IDA's budget is 100% stable with 95% state-funded. IDA is responsible to the Irish tax payer, and must keep the home front happy by demonstrating good value for their money. Public opinion education at home can be done using the domestic media.

Politicians like to have statistics and to quote. They will take credit if things are going well, and if things are going badly, you must educate politicians and deal with their uneasiness as well. e.g. IDA makes a public commitment to market the displaced employees' skills in the location of a closing factory to get a new industry to locate there. IDA emphasizes cooperation by working together with the local community as a partner to the development agency.

Next step for Palestine is focusing on a marketing program with a physical presence overseas and establishing offices early on. e.g. Tunisia who has many overseas offices.

**Eugene Reilly – Manager - Forfa's, Finance, Taxation, and Policy Information.**

Date: 10/22/01

Room 280 – Forfa's, Dublin

Ireland's lack of natural resources forced it to focus early on foreign investment. In 1973, Ireland became a member of the EU which helped facilitate this investment. Ireland was able to bring in large multinational companies to link with local Irish companies. IDA sought out high-profile managers to encourage them to start a business themselves. There are currently 1200 foreign firms operating in Ireland.

It was very difficult to convince firms to locate in Ireland (especially from the far east - Japan, etc). USA has been easiest, 75% of Ireland's exports are generated by foreign direct investment. Ireland's GDP growth rate has been over 10% for the past 10 years. Ireland has been attractive to multinational corporations because of tax exemptions.

Competition for investment is intense, and large amounts of money are spent gaining investors. In the past, Ireland gave capital grant incentives from IDA (up to 40%) in cash. These were negotiated on a case by case basis.

Mr. Morris asked to see a copy of their guidelines for defining incentives since PIPA is currently working on establishing its guidelines for determining "special case" investors.

Mr. Reilly noted that currently in Ireland new firms investing in are less capital intensive (e.g. Microsoft) so they have switched to employment grants instead of cash grants. They give x % of the salary of the employee instead, but this is still negotiated on a case by case basis.

All of these grants are repayable if the firms close down, and obviously the repayment is higher the shorter the time these firms have been operating in Ireland. This mechanism for repayment of grants by firms that close is known as the “Claw Back” clause. The IDA signs a contract with the parent company that repayment of the grant will occur if that firm closes its operations early.

Currently Ireland is heavily pursuing knowledge-based industries. Ireland would not give incentives to firms like textiles/clothing because Ireland can't compete as their wages are too expensive. Mr. Morris points out that Palestine could be competitive in clothing because Palestine/Israel can ship to the US duty free even if the cloth was imported by Palestine from India. Mr. Reilly made a comparison of this duty free status with the US to the AGOA (African Growth and Opportunity Act) which gives African countries an advantage.

Grants are not an institution in the American psyche, but they are very important to Europeans. Ireland subsidized rent and gave guarantees to pay rent if a firm set up operations in a certain location. This was a common strategy that was used in the past to attract investors to certain locations where employment opportunities were needed. It was noted that Palestine currently has no rent subsidy program.

Incentives are not everything though because you also have to SELL. No matter what time of day or night the potential investor arrives, investment promoters will be there to meet him or her and do everything to sell him or her on Ireland.

Mr. Morris brought up the issue of state-subsidized training programs. Palestine has about 10-12 small indigenous companies only. Palestine would be mainly interested in clothing, IT, textiles, and pharmaceuticals. Mr. Reilly thinks that for Palestine, the private sector financed Industrial Estate is a key selling point.

There is currently an 11% corporate tax rate in Ireland. Cutting taxes has helped Ireland tremendously but you must be careful depending on the position and situation your country. Low taxes can generate significant tax revenues.

Some countries have an investment code of law, but Ireland does not. Mr. Morris mentioned that Palestine wants to develop an investment code, and Mr. Reilly suggests looking at Uganda which has this type of investment code.

Palestine's problem with water shortage means that it will be unable to work in dyeing and finishing industries. Palestine will have to focus on industries that are not resource intensive in terms of a resource that you are weak in. Palestine may look at knowledge intensive industries a bit earlier than many other countries do in the development process in stone and marble. Tourism is also huge for Palestine assuming a better political situation.

**Jim Sheridan –Business Development Consultant - Forfa's.**

Date: 10/22/01

Room 280 – Forfa's, Dublin

Mr. Sheridan began by discussing IDA's founding in 1969. Employment and job creation was the primary objective. Mr. Morris notes that 50% of the Palestinian population is under 15 years of age and that are all going to need jobs.

The IDA was focused on:

- Investment in the educational system in terms of setting up institutes of higher learning and a switch in focus of these institutions from the arts and classics toward technologies, engineering and the sciences.
- Very substantial investment in the telecommunications system (3-5 billion \$US in the late 1970s)

Ireland had special barriers to development as an island economy. Researching the market for Ireland was done differently than most market analyses. Instead, the IDA went straight into the international market and asked what was needed. They did not do the usual sectoral studies before beginning.

The IDA set up five offices in the U.S. and in the European market. For example, there were IDA offices in New York, Los Angeles, and Chicago with 8-9 people each in charge of one sector (e.g. electronics). These individuals began working in Ireland and then moved to the office abroad. That person's job was then to get to know top companies in the region and to build relationships.

These offices continued to grow. For example, in the mid-1970s, there was a divide in electronics between software and hardware and then there was a need for two specialists in the IDA offices abroad. Ireland began moving into service industries that were high-value, and now Ireland is one of the biggest software exporters. This trend was extended in the early 1980s in terms of international financial services. This created jobs for Ireland's new MBA graduates that they were producing. A 27 acre zone was created in Dublin for financial services and the "global financial market" idea was really beginning to take off. Ireland set its eyes on the data processing end at this financial market. They pitched the corporate tax rate at a very low level for a long time (10%).

Next Ireland began to get into healthcare and pharmaceuticals. Of the big chemical companies, 9 out of the top 10 are in Ireland currently. Currently while Ireland's IT sector is declining, healthcare and pharmaceuticals are growing creating a portfolio tradeoff

Ireland had an advantage because it was small and could talk to all the sectors and government ministries much more quickly than an unwieldy England for example. Ireland could be more responsive to what the market demand was as it had more flexibility.

Generally, Irish employees would go to the IDA offices in the US or Europe for about 5 year stints. Personnel were rotated and cross-trained to create knowledgeable "generalists" who could do each other's jobs.

The processes by which companies came to Ireland were initially very different from how on the ground firms expanded. IDA began to work closely with the industries on the ground. A problem

currently in Ireland is competition among low-end businesses. The focus is on keeping the workforce trained so they can adapt to the progression in IT related fields, etc.

According to Mr. Sheridan, Ireland's biggest strengths and factors leading to its successes were:

- Heavy investment in education system
- Low tax rate
- Consistent governmental situation (not much diff. between "right" & "left")
- Ever-listening marketing

Mr. Morris pointed out what bothers investors the most is the "unknown." If you know that situation is going to be bad from the beginning, you can plan ahead, but the ups and down make it very difficult to attract investors.

**David O'Donovan - Executive Director, W/IDA for 31years - Merlin Associates (Now beginning private practice)**

Date: Tuesday 10/23/01

Room: 628-Forfa's

In 1970, Ireland's population was 2.9 million. It was a very small market with no entry into the European market, very little industry (in the North a bit), mostly agriculture. Massive emigration resulted in 100,000 people leaving per year in the 1950s. Ireland was facing huge tariff barriers to foreign goods as it was very protected market with hardly any foreign investors.

At that point, Ireland needed a major policy change, and two major decisions were made:

- Open up Ireland to duty free entry by the British Market.
- Apply to join the European Union.(On January 1, 1973, Ireland became a full member)

It was decided also to create an agency with responsibility for attracting foreign investors and to offer incentives to these investors. IDA was formed of government representatives and private sector individuals. It was an autonomous entity unlike the civil service. Ireland knew it needed major incentives to attract investors as the tax rate was 44%. A decision was made overnight to reduce the tax rate to 10% only on manufacturing firms (both foreign and domestic).

IDA made grants available, both employment and capital subject to a limit. Companies had to have a business plan that was commercially feasible to convince IDA to accept. IDA then set up the network of overseas offices (3-USA and 2-Europe) with their own Irish staff. These offices were not located in the Embassies so that IDA was not distracted by political and bureaucratic issues.

Mr. O'Donovan was based in New York from 1973-1975. He was responsible for going to offices overseas and making contacts. He had to convince foreigners that Ireland was a safe place to invest and change the image of it being a country at war. (This is also the case for Palestine). He organized site-visits. They often also went to Britain, the Netherlands Germany etc. These other countries had an advantage in that they each had huge domestic markets. 1-3 visits ended in a business plan.

If IDA accepted the business plan, it would make an offer to the investor in terms of a grant package (e.g. 5000pounds/job or 0-60% grants).

Grants would be higher if:

- Higher skill level (i.e. college graduates were required)
- Created employment.
- Ideal geographic location (i.e. one that Ireland wanted developed)
- Likelihood of future investment (company growth rate)

Grants package would be lower if the company required low wage and high labor intensity manufacturing (e.g. women).

Since 1994, IDA only works on foreign investment. IDA worked on both foreign and domestic before 1994 when Enterprise Ireland was created to work solely on domestic investment. IDA does however still work on Ireland and foreign firm joint ventures. Ireland was able to keep the incentives high and taxes lower than other countries in Europe which had higher costs which Ireland social welfare costs which Ireland did not. Ireland shied away from chemical plants because of the pollution problems associated with these industries from the beginning. Also there was never ammunition manufacturing in Ireland.

Ireland focused on attracting 4 main investment sectors:

- 1- Information, communication, technological (electronics)
- 2- Pharmaceuticals
- 3- Financial services
- 4- International services.

These services are very labor intensive, which means more jobs are created. There are also no associated transport costs/shipping on financial services.

Clothing manufacturing firms did not flourish in Ireland because they could not be competitive long term (e.g. a mistake was made when 1900 people lost their job with Fruit of the Loom's closing). Ireland does not accept clothing manufacturers anymore.

There are 1300 foreign firms currently operating in Ireland with 140,000 employees (mostly Irish) employed directly and 140,000 indirectly employed by these firms. These firms spent 15 billion US\$ in Ireland's economy.

Mr. O'Donovan emphasized the importance of keeping investors happy because one investor always talks to other future investors. For this reason, IDA developed an "Aftercare Division". Aftercare goes to the firm every 3 months to see if there are any problems that IDA can solve (for example: facilitating foreign work permits, etc.). IDA attempts to act as a one "one stop shop" for investors. IDA spends large amounts of money on the "aftercare" division, but this pays huge dividends in terms of goodwill. Not all countries do this aftercare work or not quite as well as Ireland according to Mr. O'Donovan.



The vast majority of the foreign firms are not unionized. IDA cannot obligate a firm to join unless more than 50% of the employees are members (each individual is permitted to join a trade union).

IDA realized that it made the mistake of trying to attract “everything” and every kind of firm. About 10 years into the development process, Ireland began to really evaluate what kind of firm would be truly competitive in Ireland. IDA began to ask companies what they needed in terms of education and then focused on those areas especially languages, engineering, and electronic technicians, etc.

### **David Lovegrove – Topics: Strategy and Policy Planning and Competitiveness**

Date: 10/23/01

Same venue as previous

#### **I. Strategic policy planning**

First you must ensure that you are in the best markets. You need the best tools that are available. You have to Fight for the best incentives and facilitates to make Palestine a bit more attractive than your competitors (Jordan, Lebanon, etc). Ireland limited itself to high value and low volume firms through a strategic decision. Ireland focused on key sectors and then set its incentives to obtain this type of work. Ireland was very good at knowing what it wanted and then asked the customer what they need in order to figure out how to get it.

PIPA must never bring in work that is below the capability of the people in the country (never sell yourself as cheap).

In future planning, you must take risks to be prepared for future work that you know will come so that when it does, you are prepared to be competitive. The further we look into the future, the bigger your opposition will be worldwide. The more your country develops and the globalization of services means that your competition will continually be increasing. Mr. Lovegrove notes that Palestine will be competing with Ireland before too long.

#### **II. Competitiveness (Tailoring incentives)**

PIPA must continually look closely at the cost base within the country to evaluate how it can be run cheaper, faster, lower cost. Reduction in the paperwork and hoops that a firm must go through to set up operations is crucial to being competitive.

Mr. Lovegrove notes a Swiss website that gives a country competitiveness ranking, and Ireland moved from 11th to 7th in last couple of years.

### **Pat Clune – Project Executive –Shannon Free Zone, Overseas Consultancy Department, Shannon Development**

Date: 10/24/01

Shannon was first synonymous with aviation development. It was a provision and refueling stopover. Shannon's entire employment from the late 1940s to the early 1960s early was built up around this industry. This eventually became the biggest threat to Shannon Development, which began in 1959.

Shannon Development was a private limited liability company with shares owned by government. Being a private limited liability company allowed it to get involved in a much more broad range of activities. It is self financing with a turnover of 85 million Euros/year. It employees just over 200 people in several overseas offices.

Ireland with 1% the population in Europe, attracts 30% of the foreign direct investment. Clare, N.Kerry, Limerick S. Offal, and N. Tipperary are counties included in the Shannon region with Limerick as the capitol.

170 overseas firms operate within the Shannon Region. On the seaport, Shannon Free Zone was established in 1959 on 600 acres. 130 companies in the Shannon Free Zone (SFZ) employ 8000 people and export 2.3 billion Euros/year.

The primary reasons companies located in Shannon:

- 1- English speaking highly skilled workforce
- 2- Incentives package
- 3- Economic performance and stability
- 4- Lifestyle
- 5- Airport location

The Shannon Free Zone is well diversified so that there is not a stronger focus in one area versus another (e.g. IT, engineering, healthcare, insurance, financial services, electronics, education and training, aircraft financing, etc.).

The typical lease term for a property within the Shannon free Zone is 120 years for companies that want to own its own building.

In 1947, the Customs-Free Airport Act established Shannon as a Freeport where normal import and export laws are suspended. This Act was amended in 1958.

The SFZ incentives package included:

- 12.5% rate of corporate tax from 1/1/03 awards.
- Duty deferred for EU destined goods.
- No duty on non-EU destined goods.
- Cash grants toward employment, capital equipment, and training
- Zero-rated for VAT and no VAT at point of entry
- 250,000 Euros/acre (a variety of serviced greenfield sites are available for the 120 years)
- Public or private owned industrial and office space for 5-139 Euros per m2
- 1.2 billion Euros invested in public infrastructure.
- Gas and rail network are still underway.

The premiere technological university, University of Limerick, established in 1972, was a big selling point with companies looking for highly skilled labor. It is heavily engineering and science focused with more than 9000 students from the undergraduate to doctoral level.

There are strict eligibility regulations for a company locating in the SFZ. It must generate employment, must be internationally traded, export oriented and contribute to the use of the Shannon airport in terms of generating passenger and freight movement.

There is also a standard “Approvals Procedure” consisting of the following basic steps. SFZ designates a project executive to assist each potential investor through the entire approvals process:

- 1- Itinerary consisting of an investor site visit, presentations, introduction to other companies in SFZ, introduction to specific services he or she might need (law firms, universities, etc.)
- 2- Business plan submitted for a 3 years period including a grants/incentive package developed into the future.
- 3- Shannon Development negotiation and appraisal (approximately a 6 week process)
- 4- Board approval (does not go to the board until the project is approved)
- 5- Letter of advice
- 6- Contract conclusion
- 7- Implementation

Irish national firms make up about 10% of firms in the SFZ. Others are joint ventures between Ireland and foreign firms.

There are three main phases in promoting the SFZ:

**I. Pre-investment:**

- Intelligence gathering and sector research
- Establishing a competition advantage
- Promotional materials
- Targeting (6 months -25years process)
- Itinerary handling

**II. Implementation (Assist in the process of building the project)**

**III. Post-investment (Keep investors happy so they expand investment and help attract other investors)**

**Tom Hyland, Area Director, IDA Ireland**

Date: 10/25/01

West Regional office, Galway – Mervue Business Park

Many companies in Ireland are from the midland area. IDA is under the Ministry for Enterprise, Trade and Employment. The Chairman is always from the private sector (currently John Dunne).

The IDA Headquarters are in Dublin with 10 Regional Offices and 14 overseas offices with 280 staff with a budget of 220 million pounds/year.

Galway is the 3rd largest city in Ireland with: